

2010 First Quarter Review

Late January brought us a much needed correction in the global markets - one we expected and also one not to be feared. It would be nice if markets went up forever, but like plastic surgery or going to the tanning salon, it's just not natural or healthy in the long run. The consensus seems to be that 2010 will end higher, but regardless it'll be a bumpy ride. Dividends, income, and taking gains aggressively through rebalancing will be the key to success in this environment.

Political uncertainty will remain with Health Care and Financial Reform being the two biggest issues. The Fed raised the discount rate, but emphasized that the Fed Funds rate (which drives consumer credit rates) would still remain low for an 'extended period' – a positive for the markets. Inflation is not a worry at the moment with unemployment being high, and banks still not lending. However, temp hiring continues to increase as a leading indicator that things may be turning around in the job market. Investor sentiment, a contrary indicator, is in more bullish territory after the recent pullback. Housing appears to be stabilizing, although some headwinds still remain. The dollar has seen a rally this quarter, amplifying the relative underperformance in the international markets. That being said, we don't expect this to continue long term with our country's current and projected debt levels. We like international markets long term.

I want to take a moment to talk about all of these bailouts and why it seems to be en vogue. Suppose someone gave you the choice of being flogged once per week over 10 weeks or being flogged 10 times in a row. Which would you choose? Most people will choose once per week over 10 weeks, rather than getting it all at once, taking all of the pain now.

Human beings will almost always prefer minimizing the pain in the present by spreading it out into the future. Can you see why spending now, minimizing current pain, at the expense of the future is so appealing to politicians? Politicians just love Keynesian Economics, the theory that active government intervention in the market is the best method to ensure economic growth and stability. It justifies spending money we don't have in the name of stimulating growth! Sounds silly when you say it that way doesn't it?

In the 80's it took \$3 of debt to generate \$1 of gross domestic product, GDP, a common measure of the economy. Currently, it takes \$6 of debt to generate \$1 of GDP - 100% more! As we're learning, deficits do matter and government spending does not escape the Law of Diminishing Returns. The truth is no politician wants to make the 'tough choices' which eventually fall on the shoulders of their constituents who, in turn, lash out in the voting booths. It's because of this adoption of economic theory by world leaders that you can almost bet on continued bailouts across the globe. Case in point, look at Dubai and now Greece. This cycle of debt and spending is unsustainable and will end badly. Unfortunately, no one knows how or when these debt chickens will come home to roost.

I could go on to list many additional risks that are lurking out there, but the idea of investing isn't to wait until the coast is clear. If you're not taking risk, you're not going to get rewarded – it's that simple. Part of investing successfully entails knowing the downside risk that you're willing to handle to earn your reward. The reason I say this is that no one can see the future. We invest in a world of probabilities of what's likely to happen or not. In light of this fact, diversification is still your best hedge. Make no mistake, risk has made a comeback. In today's environment, you need your advisor more than ever.

- Chris Ginder, Vice President/Portfolio Manager

MoneyLink

MoneyLink is a free feature provided by Schwab Institutional which enables Kuntz Leshner Capital to authorize fund transfers you have directed into and out of your Schwab brokerage account. The actual process is an electronic fund transfer (EFT) through the Automatic Clearing House (ACH) Banking System. This is different from a wire. The bank account can be a checking account, a money market account or a savings account. Another feature of MoneyLink is the ease of transferring funds from your bank account into your Schwab Account. If you want to send money for investment, call the office, and if you have MoneyLink, in most cases the transfer can be accomplished that day.

Even if you have checks or a debit card on your Schwab Institutional account, MoneyLink is a feature highly recommended for easy access to your funds. If you aren't certain whether you have MoneyLink, call the office and we can advise you if you have this feature on your account. If not, we can send you the paperwork. In only a few weeks, this feature enabling fund transfers between accounts can be accomplished. It's certainly quicker than sending KLC a check, payable to Schwab Institutional; quicker than sending a check to Schwab Institutional for investment; or quicker than Schwab sending you a check to "the address of record."

Once the link is set up, if you change bank accounts, or wish to change the account linked to Schwab Institutional, all that is needed is for you to send KLC a voided check from the new account.

Tax Reporting

Last Spring KLC's custodian, Schwab Institutional, modified their monthly statement format to show cost basis of your account holdings. All holdings purchased through KLC have the cost basis listed on the statement, plus the cost basis provided to KLC (when you opened a KLC account or transferred funds into KLC). If cost basis isn't available, the statements show N/A for Not Available.

For the 2009 tax year, Schwab provided a partial year tax report (known as a 1099-B) for all non-retirement accounts, because the modified statements occurred in the Spring. KLC provided what we call a Gain/Loss Report for the entire year. This year will be the last year we will provide the KLC report, since it's redundant to the Schwab 1099-B provided for the entire year.

As most of you know, KLC works diligently to gather the cost basis of assets transferred to KLC. Stocks, bonds, mutual funds, etc. which are purchased by KLC have the cost basis listed, so, henceforth, unless there is an error, all 1099's sent to you will have cost basis to complete your income tax returns.

Upcoming Seminar

On June 9th, Kuntz Leshner Capital, along with David Seibert, will be presenting an educational seminar about a new investment opportunity, the Structured Certificate of Deposit. It will start at 6:00 pm with cocktails. Then a short presentation will be provided, followed by a question and answer period. Coffee and dessert will follow. With the volatile market we have encountered since early 2008, KLC wanted to present an investment option for those interested in the upside the equity market can provide along with a guarantee of your principal. Please call Corinne Fairbairn at 291-0682 if you are interested in attending this informative event. Corinne can provide you with further details.

- Sarah Young Fisher, President